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KEY ECONOMIC INDICATORS FOR MALAYSIA

Values in millions of U.S. dollars (US$) unless otherwise specified, at the year's average exchange rate, except Foreign Debt and Foreign Reserves (converted at year-end rates). Percentage changes calculated in M$ terms to exclude exchange rate fluctuations.

	1986	1987	1988*	1989*
Income, Production, Employment				
GNP in 1978 Prices	21,048	22,541	23,452	25,534
Percent Growth	2.6%	4.8%	6.9%	7.1%
GNP at Current Prices	25,742	29,849	31,424	33,732
Percent Growth	-7.9%	13.5%	8.2%	5.6%
Per Capita GNP (Curr. US$)	1,597	1,803	1,857	1,943
Population (millions)	16.11	16.53	16.92	17.34
Labor Force (millions)	6.09	6.41	6.62	6.83
Unemployment Rate	8.3%	8.2%	8.1%	7.9%
Money and Prices				
Money Supply M2 (M$ millions)	53,767	56,459	58,008(a)	
Growth of Money Supply	11.1%	3.1%	4.1%(b)	
Inflation (CPI)	0.6%	1.1%	2.7%	3.2%
Commercial Prime Rate	10.0%	7.0%	6.75%(c)	
Balance of Payments				
Merchandise Exports	13,721	17,675	20,778	22,036
Merchandise Imports	10,315	11,800	15,426	17,593
Merchandise Balance	+3,406	+5,875	+5,352	+4,443
Services & Transfers (Net	-3,524	-3,600	-4,276	-4,288
Current Account Balance	-118	+2,275	+1,076	+155
Exchange Rate (avg., per US$)	2.58	2.52	2.59(d)	2.63
Official Net For Exch Reserves	6,279	7,793	6,313(a)	
Foreign Debt (Med. & Long)	19,615	20,355	17,537	17,000
Debt Service Ratio	17.6%	14.8%	16.2%	13.0%
Government Finance				
Federal Gov't Revenues	7,571	7,188	8,498	8,918(e)
Federal Gov't Spending	10,483	9,626	10,642	11,476
Federal Deficit	-2,912	-2,438	-2,144	-2,558
Percent of GNP	11.3%	8.5%	6.8%	7.6%
Overall Public Sector Deficit	-2,526	-1,922	-1,930	-2,831
Percent of GNP	9.8%	6.4%	6.1%	8.4%
U.S.-Malaysian Trade				
U.S. Exports to Malaysia	1,695	1,867	2,300(f)	
U.S. Imports from Malaysia	2,407	2,895	3,700	
U.S. Balance with Malaysia	-712	-1,018	-1,400	
U.S. Share in Malaysia's Trade	17.6%	17.5%	17.7%	

(a) Aug. (b) Annualized (c) Latest (d) Jan.-Sep. Avg
(e) Budget (f) Embassy estimate
* Forecast

Sources: Bank Negara Annual Report 1987
Ministry of Finance Economic Report 1988/1989
Bank Negara Quarterly Report Sept 30, 1983
U.S. Department of Commerce

SUMMARY

Malaysia's recovery from its worst recession since independence strengthened and broadened in 1988 as domestic demand began to complement the export boom which led the recovery in 1986 and 1987. After growing 5.2 percent in 1987, the government expects real output (GDP) to grow 7.4 percent in 1988. Private economists expect growth to exceed 8 percent. National income (nominal GNP) is projected to grow 8.2 percent in 1988. Real growth of 7 percent is likely in 1989 but Malaysia's growing export dependence (74 percent of GNP) leaves the economy vulnerable to a recession in the OECD economies.

Net exports of goods and services accounted for 75 percent of 1987's increase in aggregate demand but 1988 is seeing more broad-based growth with investment (fixed capital formation) expected to account for 54 percent of increase in aggregate demand. Gross capital formation is expected to increase 18.2 percent in 1988 and private consumption 9.7 percent. Net external demand is expected to be lower.

Malaysia's current account posted a remarkable turnaround from a $3.5 billion deficit in 1983 to a $2.3 billion surplus in 1987 (7.6 percent of GNP). The government expects a smaller surplus of $1.1 billion for 1988 and near balance in 1989. Merchandise exports are expected to increase 20.7 percent in 1988 to $20.8 billion, following a 25.9 percent rise in 1987. Manufactured goods should surpass traditional commodities for the first time to account for 48.4 percent of exports in 1988.

Foreign direct investment continues to increase, particularly from Japanese and Taiwanese manufacturers facing higher costs at home. Malaysia used part of its increased external reserves to reduce its borrowing and to pre-pay nearly $1 billion in foreign debt. The ringgit depreciated against the srengthening U.S. dollar but gained against the yen and European currencies.

Tight control of spending and the recovery's boost to revenues has reduced the federal deficit from 11.3 percent of GNP in 1986 to 6.8 percent for 1988. The corporate tax rate is being cut from 40 percent to 35 percent and the 5 percent development tax will be phased out. The consolidated public sector deficit fell from 9.8 percent of GNP in 1986 to 6.1 percent in 1988.

Inflation was only 1.1 percent in 1987, but is likely to increase to 2.7 percent this year, mainly as a result of higher import costs. The unemployment rate declined from 8.2 percent to 8.1 percent.

Malaysia offers many opportunities for American investors and exporters. Malaysia seeks increased American investment, particularly in high technology and in the processing of natural resource based commodities. Telecommunications, computers and peripherals, and food processing and packaging equipment offer the best U.S. export prospects.

MALAYSIA'S ECONOMY IN BRIEF

From 1965 to 1984, the Malaysian economy saw sustained rapid growth and diversification. Manufacturing expanded and supplanted agriculture as the economy's largest sector. In 1988, manufacturing will account for 24.2 percent of real GDP, agriculture 21.1 percent, mining and petroleum 10.6 percent, construction 3.2 percent, and government services 12 percent.

The Malaysian economy is extremely open with total exports and imports of goods and services equal to 138 percent of GNP. As a result, Malaysia is highly dependent on an open international trading system, and external developments have a strong impact. Malaysia also remains a commodity producer. Six commodities-- petroleum (including LNG), palm oil, rubber, tin, timber and cocoa--still account for 45 percent of Malaysia's exports. In 1986 the weighted average of Malaysia's export prices fell 15.5 percent, following a 7.5 percent decline in 1985. The decline in export earnings drove the economy into its most severe recession since independence, reducing national income, government revenues, consumer spending and investment. In 1987, Malaysia saw a recovery in its commodity prices and a boom in exports of manufactured products, lifting its economy out of recession. The recovery has continued to strengthen and broaden in 1988.

The New Economic Policy (NEP) was established in 1971 with two objectives: (1) to eradicate poverty in Malaysia and (2) to restructure the economy so as to end the identification of economic function with race. In particular, the NEP was designed to enhance the economic standing of the ethnic Malays and other indigenous peoples (collectively known as "bumiputras" in Malay). Rapid growth during the 1970s and early 1980s made it possible to expand the share of the economy for bumiputras without reducing the economic attainments of the other groups.

One important NEP goal is to alter the pattern of ownership of corporate equity in Malaysia. By 1990, the NEP seeks to ensure that at least 30 percent of corporate equity is held by bumiputras, 40 percent by other Malaysians (primarily Chinese and Indian Malaysians), and no more than 30 percent by non-Malaysians. The government established various trusts to provide government funds for the purchase of foreign-owned shareholdings on behalf of the bumiputra population. Foreign firms have been urged to restructure their equity in line with the NEP guidelines. In 1985, the government estimated that bumiputras directly and indirectly owned 18 percent of corporate equity and foreigners 26 percent. It is generally acknowledged that the goals of the NEP cannot be achieved by 1990, partly as a result of the recession. The Malaysian Government remains committed to the NEP's objective of increasing bumiputra participation in the economy, and it is expected that the NEP in some form will continue beyond 1990.

CURRENT ECONOMIC SITUATION AND TRENDS

Aggregate Demand and Output: Real output (GDP) grew by 5.2 percent in 1987, compared with only 1.2 in 1986 and a 1 percent decline in 1985. The government is projecting real GDP growth of 7.4 percent in 1988. The first half of 1988 saw real GDP increase at an annual rate of 8.9 percent. While growth will probably be slower in the second half, the Malaysian Institute of Economic Research estimates that growth will be 8.2 percent for the year, the highest rate this decade.

Because of the high value of exports relative to GNP (74 percent), changes in the terms of trade can accentuate economic cycles. In 1987, Malaysia's terms of trade improved 7.4 percent (after a 20 percent decline in 1985 and 1986), helping to boost current GNP by 13.5 percent. This reversed the combined 10.6 percent decline in 1985 and 1986. Nominal GNP growth of only 8.2 percent is forecast for 1988 based on an expected slight deterioration in the terms of trade.

Exports led the recovery in 1987 when net exports of goods and services accounted for 75 percent of the increase in aggregate demand. In 1988, the recovery became more broad-based with investment (fixed capital formation) expected to account for 54 percent of increase in aggregate demand and private consumption spending 60 percent. Gross capital formation (both private and public) is expected to increase 18.2 percent in 1988 (nominal terms), reflecting the fact that growing exports have left many industries working near capacity. Private consumption is expected to grow 9.7 percent in 1988, driven by rising incomes. Net external demand is expected to shrink.

The government expects the broadening of the recovery to continue in 1989 with gross capital formation projected to increase a further 16.6 percent and private consumption 9.8 percent. External demand is expected to again make a negative contribution to aggregate demand as the country's external surplus narrows.

Manufacturing is now the Malaysian economy's largest sector, accounting for 24.4 percent of GDP in 1988. Real output grew 12.8 percent in 1987 and is projected to grow a further 15.5 percent in 1988. Output of electrical machinery and electronic components grew 30.7 percent in 1987 and a further 24.6 percent in the first half of 1988. Malaysia is the world's third largest producer of semiconductor devices after the United States and Japan. The local industry, dominated by American and Japanese multinationals, boomed from mid-1986 to mid-1988 but is seeing slower growth in the second half. Output of televisions (up 44 percent), air conditioners (up 51 percent) and radios (up 41 percent) grew rapidly. The rubber products sector expanded 25.6 percent in 1987 and by 43 percent in the first half of 1988, driven by the global demand for examination gloves.

Agriculture is the economy's second largest sector (21.2 percent of GDP). Output grew 7.4 percent in 1987 but is expected to grow only 3.6 percent in 1988. Production of saw logs and timber increased 19 percent in 1987 to 41.9 million cubic feet (MCF) on strong demand, from Japan, Taiwan and South Korea. Production is estimated at only 39.9 MCF in 1988 and 40.2 MCF in 1989. Palm oil output declined 0.3 percent to 4.5 million metric tons (MT) in 1987. Output should increase to 5 million MT in 1988 and 5.4 million MT in 1989 as earlier plantings reach their full production potential. Malaysia produces 59 percent of the world's palm oil. Rubber output increased 2.7 percent in 1987 to 1.58 million MT and should increase a further 2 percent in 1988. Malaysia produces 33 percent of the world's natural rubber. Rubber prices have risen sharply as production of rubber gloves and other products expanded. Despite low world prices, cocoa production continued its rapid expansion in 1987, with output up 41 percent to 184,000 MT. The U.S. Department of Agriculture expects cocoa production in Malaysia to reach 230,000 MT in 1988 and 255,000 MT in 1989. Malaysia is the world's third largest cocoa producer.

Mining output is estimated to be up 7.8 percent in 1988, after a marginal increase of 0.1 percent in 1987. Oil production averaged 498,000 barrels per day (bpd) in 1987 but will likely be 540,000 bpd this year. The government plans to produce 562,000 bpd in 1989. Total production of natural gas output is expected to be up 9 percent at 1700 million standard cubic feet. More than 80 percent of Malaysia's gas output is exported in liquified form (LNG) to Japan. Malaysia began work this year on a 450 mile pipeline to deliver offshore gas to the industrial and population centers in Peninsular Malaysia and Singapore. Higher prices helped boost tin production slightly to 30,388 MT in 1987. The government expects tin output to reach 30,400 MT in 1988 and 35,000 MT in 1989 as mines re-open. While still the world's largest producer, the Malaysian industry is unlikely to regain its former place in the economy. In 1980, 852 mines produced 61,400 MT. In cooperation with other tin producers, Malaysia agreed to limit its exports as part of a progam to assist the market's recovery from the 1985 collapse of the International Tin Council.

The construction industry is estimated to have expanded 1 percent in 1988, following 3 years which saw a cumulative decline of 30 percent as a result of the recession and a glut of commercial property. A slight pickup to 3 percent growth is predicted for 1989. The services sector is estimated to have grown 5.8 percent in 1988 (4.8 percent in 1987).

Unemployment officially stood at 8.2 percent of the labor force at the end of 1987 and is estimated at 8.1 percent for 1988. The economy's growth boosted employment an estimated 3.4 percent in 1988 and has attenuated earlier government concern at rising unemployment among new university graduates.

Balance of Payments and Foreign Debt: Malaysia's balance of payments showed a remarkable turnaround from a $3.5 billion deficit in 1983 to a $2.3 billion surplus in 1987 (7.6 percent of GNP). The government is predicting a smaller surplus of $1.1 billion for 1988 and near balance in 1989, mainly because of an expected increase in the services deficit.

Merchandise exports are expected to increase 20.7 percent in 1988 to $20.8 billion, following a 25.9 percent rise in 1987. The government's estimates are probably conservative. In the first 8 months of 1988, exports were up 27 percent over the same period of 1987. Higher non-oil commodity prices in the first half of 1988 helped. Export earnings from Malaysia's traditional commodities (oil, gas, rubber, palm oil, timber, tin and cocoa) are expected to increase 7.3 percent to $9.8 billion. Even more impressive was the growth in manufactured exports -- expected to increase 30 percent to $10.1 billion. Manufactured goods should account for 48.4 percent of exports in 1988, traditional commodities will account for 45.2 percent.

Imports, much of which are production inputs, are expected to increase 34 percent to $15.4 billion. As a result, the government expects the 1988 merchandise surplus to decline from 1987's $5.9 billion to $5.4 billion. In the first 9 months, however, the trade surplus was running ahead of 1987's pace.

Malaysia runs a large services deficit. The government expects the deficit to increase 22 percent in 1988 to $4.2 billion. Net investment income, the largest component of Malaysia's services account, is expected to increase 15.3 percent to record a gross outflow of $2.3 billion in 1988. Most of the increase comes from a 32 percent jump in the profits of foreign-owned companies to $1.6 billion. Interest payments on Malaysia's foreign debt were unchanged at $1.4 billion. The services deficit is also expected to be $4.2 billion in 1989.

The debt service ratio (excluding prepayments) fell from 17.6 percent in 1986 to 14.8 percent in 1987. The government expects an increase in 1988 to 16.2 percent because of a bunching in repayments of short-term debt. Government spending cuts have held down the growth of Malaysia's foreign debt since 1984. Net borrowing peaked at $3.7 billion in 1982, then declined to $439 million in 1986. In 1987 and 1988 Malaysia's made net repayments on its debt, including nearly $2 billion in prepayments. By the end of 1988, Malaysia's foreign debt should be down to $17.5 billion. Forty percent of Malaysia's foreign debt is denominated in U.S. dollars and 36 percent in yen. As of August 31, 1988, net official foreign exchange reserves stood at $6.3 billion (4.8 months of retained imports).

Money, Interest Rates and the Banking Sector: The growth of monetary aggregates moderated in the first half of 1988. After growing 13 percent in 1987, M1 (cash plus demand deposits) grew at an annual rate of 3.8 percent during the first half of

1988. M2 (M1 plus savings accounts) fell 0.5 percent in the first half of 1988 (mainly because of a decline in time deposits) after growing 5 percent in 1987. In the first 7 months of 1988, deposits in the banking system declined M$379 million while the expanding economy resulted in total loans increasing M$3.75 billion. As a result the banking system's loans-deposit ratio (the best measure of liquidity) rose from 89 to 94 percent. The fall in bank deposits is blamed on disintermediation as low rates led depositors to invest directly in instruments such as treasury bills.

Despite the tighter bank liquidity, interest rates remained low. Interbank rates remained in the 3.5 to 5 percent range and the base lending rate quoted by the two largest banks (comparable to the prime rate in the United States) declined from 7 to 6.75 percent. It was 9.75 percent in 1986.

In order to encourage development of a bond market, the government has exempted corporate bonds from stamp duty in the 1989 budget. So far, private bond issuing has been limited to major blue chip corporations such as Perwaja Trengganu Steel, Malaysian Airlines and Petronas. Yields in the new market remain well above yields on comparable government securities.

Bank Negara oversees the stability of the financial system. It has resolved the problems caused by the collapse of 24 deposit-taking cooperatives in 1986. In 1987, Bank Negara rescued three banks which ran into difficulty (United Asian Bank, Perwira Habib Bank and Sabah Bank) by injecting equity to assist in their recapitalization. Bank Negara has overhauled the management of all three banks and intends to return them to the private sector once conditions permit.

The Malaysian currency (the ringgit--M$) depreciated 6.7 percent against the U.S. dollar during the first 9 months of 1988. Part of the depreciation was due to the U.S. dollar's summer strength, when the ringgit and the dollar both posted gains against the yen, deutschmark and sterling. The third quarter, however, saw renewed weakness on the part of the ringgit which reached a low of M$2.70 per U.S. dollar in November before recovering to M$2.65. Against Bank Negara's trade-weighted basket, the ringgit declined 0.8 percent in the first three quarters of 1988.

The Public Sector: Public sector finances were better than expected in the October 1987 budget report, but the public sector deficit remains high and the government's credit demands could constrain future growth. Tight control of total spending (which in 1988 was below the 1984 level) and higher tax revenues (18.2 percent over the budget estimates) due to the economy's improvement have reduced the 1988 federal deficit from the $2.4 billion (8.7 percent of GNP) projected in the 1988 budget to an estimated $2.1 billion (6.6 percent of GNP). The 1988 consolidated public sector deficit (including the

state governments and the Non-Financial Public Enterprises) is expected to be only $1.9 billion (6 percent of GNP), compared with the $3.4 billion (12.3 percent of GNP) in the 1988 budget.

Malaysia's 1989 budget will provide a modest stimulus to the economy. Federal spending will rise 8 percent to $11.1 billion, mainly in the development (capital) budget. Revenues are expected to increase only 6 percent, mainly because of anticipated weak oil prices, resulting in a budgeted federal deficit of $2.5 billion (7.6 percent of GNP) and a consolidated public sector deficit of $2.7 billion (8.4 percent of GNP). The government has been a heavy borrower on Malaysia's domestic credit markets in the past two years, both to finance its deficit and to prepay foreign debt with cheaper domestic debt. During 1987 and 1988, the government borrowed $6 billion domestically. Because of weak private credit demand, the government's borrowing did not push interest rates up but such heavy borrowing could constrain the economy's future growth. The government has said it will reduce its domestic credit demands in 1989 by limiting the prepayment of foreign debt.

The government cut the corporate tax rate from 40 to 35 percent for 1989 and will phase out the 5 percent development tax, beginning with a 1 point cut in 1991. This will reduce the effective tax rate to 39 percent. It was 48 percent in 1987. To make up part of the lost revenue, the government broadened the sales tax and plans a value added tax (VAT).

The government is trying to improve efficiency in the statutory bodies and Non-Financial Public Enterprises (NFPE's). Their external financing requirement is budgeted at $329 million in 1989. The modest aggregate obscures the problems at many NFPE's. A small number (mainly Petronas, the National Electricity Board, Malaysia Airlines and MISC) produced hefty surpluses. Many other NFPE's lose money. In addition, public entities control more than 800 other companies, many of which lose money. The government has pledged to continue reducing losses at the NFPE's and to expand its privatization program.

IMPLICATIONS FOR THE UNITED STATES

U.S.- Malaysia Trade grew sharply in 1987 and 1988. The United States is Malaysia's second largest trading partner (after Japan) taking 16.8 percent of Malaysia's exports and supplying 17.4 percent of its imports. In 1987, U.S. exports to Malaysia grew 9.7 percent to $1,867 million (U.S. Department of Commerce figures). Excluding aircraft sales, exports grew 16 percent. For the first nine months of 1988, U.S. exports grew a further 16.3 percent. U.S. imports from Malaysia rose 20 percent to $2,885 million, leaving the United States with a $1,018 million bilateral deficit. For the first nine months of 1988, U.S. imports from Malaysia grew 29 percent. For all of 1989 a deficit of $1.4 billion is likely.

The largest item in trade in both directions is electronic components produced mainly by American firms from U.S. inputs and reexported to the United States. In the first three quarters of 1988, electronic components accounted for 62 percent of American exports to Malaysia and 43 percent of U.S. imports from Malaysia. Telecommunications equipment (including televisions and radios) accounted for 12.2 percent of U.S. imports from Malaysia ($331 million) while textiles and apparel accounted for 12.1 percent ($328 million). The U.S. is also an important market for Malaysian rubber and palm oil. Overall, 83 percent of Malaysian exports to the U.S. are manufactured goods, compared with 50 percent in 1980.

Efforts in the United States to require that food labels identify palm oil, palm kernel oil and coconut oil as saturated fats became a serious trade issue. Malaysia blames the American Soybean Association (ASA) for what it sees as a protectionist trade measure. The American Heart Association supported the initiative in Congressional testimony while the Food and Drug Administration urged caution until conflicting research results are sorted out. The Administration opposed the measure on the basis that it selectively discriminates against types of oils whose health characteristics are not yet fully understood.

Perusahaan Otomobil Nasional (Proton), a joint venture between the government-owned Heavy Industries Corporation of Malaysia (HICOM) and Mitsubishi of Japan, has scaled back and delayed plans to export its "Saga" automobile to America. Proton and Global Motors now planned to ship up to 40,000 cars per year. The launch date will probably be pushed beyond February 1989.

Investment: American investment in Malaysia is important in the overall relationship. The U.S. Department of Commerce estimated that the total assets of American majority-owned affiliates in Malaysia in 1982 were $3.3 billion. These affiliates had sales of $7.4 billion and employed 64,000 Malaysians. Since then, the Commerce Department estimates that American firms have spent a further $2.5 billion in capital spending, for a grand total of $5.8 billion. Nearly $3.8 billion of this is in the petroleum sector and $1.8 billion in manufacturing, including $1.2 billion in electronics.

The U.S. Department of Commerce estimates that capital expenditures by American-owned companies in Malaysia declined from $451 million in 1987 to $331 million in 1988, mainly due to lower spending in the oil industry. Expansion and the greater capital intensity of the electronics industry have been prime factors in the strong U.S. investment in Malaysia. National Semiconductor inaugurated the first wafer fabrication facility in Malaysia in 1987 and Motorola opened one in 1988. Labor shortages and rising wages in Singapore and Taiwan have led several American firms to relocate the more labor-intensive parts of their operations to Malaysia. Exxon is implementing a

major investment program developing offshore oil facilities. Aetna and John Hancock have purchased minority stakes in a Malaysian insurer, joining American International Assurance, a 100 percent U.S.-owned firm which is Malaysia's largest life insurance company. In 1987, Merrill Lynch, Morgan Stanley and the World Bank's International Finance Corporation (IFC) launched the $84 million "Malaysia Fund" on the New York Stock Exchange. The closed-end mutual fund invests in a diversified portfolio of Malaysian publicly listed firms.

Government Policies: In September 1986, the Malaysian Government announced a number of measures designed to deal with the country's economic slowdown and to boost business confidence. In addition to the more pragmatic application of New Economic Policy (NEP) guidelines on corporate equity discussed earlier, the guidelines affecting foreign investors were liberalized. Foreign investors applying between 1986 and the end of 1990 to start new projects will be permitted to retain 100 percent of the equity in a Malaysian subsidiary if they meet either of two conditions: export 50 percent or more of the output or employ more than 350 full-time Malaysians. The government has pledged that such firms will never be required to restructure their equity. Equity guidelines for firms exporting less than 50 percent of their output were also liberalized along with the rules governing work permits for expatriate management and technical staff.

The government also introduced several measures aimed at encouraging Malaysian business and boosting manufactured exports. The Industrial Coordination Act (ICA) has been liberalized so that only investments with a paid-up capital in excess of $1 million (up from $400,000) require ICA approval. The government's New Investment Fund (NIF) provided $520 million in low-cost funds to encourage new fixed investment in agriculture, manufacturing, tourism and mining. To promote manufactured exports, the government has made exporters eligible for a reduction in their taxable income in proportion to the share of their output which is exported and the Export Credit Refinancing (ECR) scheme was expanded so that more firms can take advantage of cheaper credit offered under the ECR. Foreign-owned firms may participate in the ECR.

Malaysia passed a strong patent law in 1986 and a tough new copyright law in 1987 which strengthens protection and explicitly extends the law's coverage to computer software. The new law took effect in December 1987 and has already significantly reduced piracy. The United States and Malaysia are working on a bilateral copyright agreement that would extend the protection of the new law to all U.S. works.

OPPORTUNITIES FOR AMERICAN BUSINESS

A growing economic recovery and continuing exchange rate advantages mean opportunities do exist for American companies in a number of sectors. The telecommunications sector has been privatized and, although the Malaysian Telecommunications Company remains 100 percent government-owned, we expect more flexibility in service offerings. Potential already exists, especially for value added services, hardware and software, data communications and related computer software and services. There is also a strong market for other computers and peripherals, especially for networking, and software.

Despite low oil prices, interest in exploration remains strong and growing. There are good opportunities for oil and gas equipment, especially for exploration and gas transmission and processing. Medical instruments, plastics machinery and raw materials, educational equipment and training aids, petrochemicals, and food processing and packaging equipment are other sectors which offer sales opportunities.

Improving government finances and privatization plans mean increased infrastructure spending, especially for water and power resources. American firms should be competitive in many areas, including power stations and transmission lines. Some contracts have already been awarded for a new gas pipeline project. Several major petrochemicals projects are planned.

Malaysia's economic recovery has led to rapid growth in the retail food sector and has contributed to the growing demand for imports of processed and high value foods. There are good opportunities for imports of fresh and processed fruits and vegetables. In particular, prospects are very good for apples, oranges, table grapes, nuts (especially almonds), and frozen french fries. Imports of American fruit and vegetable juices also have been encouraging. With better promotion, U.S. wines also could make some inroads in the Malaysian market.

A change in Malaysian eating habits, aided by the introduction of American-style fast food, has increased consumption of wheat-based products and meat. Rapid growth in the domestic livestock industry has increased demand for imported feedstuffs such as corn and soybean meal and offers opportunities for imports of U.S. breeding stock. A booming textile industry is increasing imports of cotton. U.S. bulk commodities (wheat, corn, soybeans, cotton, etc.) are not now price-competitive with supplies from competitors, but the long-range prospects are more encouraging. U.S. commodities should be in a better position to compete in the Malaysian market in coming years as supplies in the United States return to more normal levels.

Interested American exporters should contact the Foreign Commercial Service or the Foreign Agricultural Service in the American Embassy for additional information.